



MINACT INC.

5220 Keele Street
Jackson, Mississippi 39206
(601) 362-1631

October 24, 2001

Mr. Richard H. Brooks
Regional Inspector General for Audit
New York Regional Audit Office
Office of Inspector General
201 Varick Street
New York, New York 10014

Attention: Mark L. Schwartz
Assistant Regional Inspector General for Audit

Subject: Draft Audit Report of MINACT, INC.
For the year ending September 30, 1999
Report No: 02-01-208-03-370

Dear Mr. Brooks:

We appreciate the opportunity to provide a response to the draft audit report of costs claimed by MINACT, INC. for the year ending September 30, 1999. We appreciate the professional manner in which the audit was conducted by the IG staff and the audit team from Harper, Rains, Stokes & Knight, P.A. The audit was very helpful to us and will be used to enhance the effectiveness and efficiency of our fiscal systems.

As the attached comments demonstrate we do have concerns primarily about the conclusions and any final recommendation for disallowance of the first two findings. We believe there is sufficient basis to reconsider the findings and remove them from the report.

Your consideration of our comments is appreciated. Please contact me at (601) 362-1631 for questions or clarification.

Sincerely,



Sam Devore
MINACT, INC.

MINACT, INC. Response to findings

- MINACT wrote off \$100,000 of the underfunded balance in its self-insured health plan account.

Response:

We strongly disagree with this finding.

The questioned cost is based on a CAS clause that is not applicable. 9904.416-50(a)(2) does not apply. Payments are made to a trust fund. A copy of the 5500 for the MINACT Group Health Trust is enclosed.

The applicable reference: Cost Accounting Standards, clause 9904.416-50(a)(1) which does apply states:

(a) Measurement of projected average loss. (1) For exposure to risk of loss which is covered by the purchase of insurance or by payments to a trusteed fund, the premium or payment, adjusted in accordance with the following criteria, shall represent the projected average loss:

- (i) The premium cost applicable to a given policy term shall be assigned pro rata among cost accounting periods covered by the policy term, except as provided in subdivisions (a)(1)(ii) through (iv) of this subsection. A refund, dividend or additional assessment shall become an adjustment to the pro rata premium costs for the earliest cost accounting period in which the refund or dividend is actually or constructively received or in which the additional assessment is payable. (Emphasis added)**

It is our conclusion that the audit report has ignored the fact that payments were made to a trust fund and that the fiscal year being reviewed should be included in the earliest accounting period.

The disallowance is not supported by the facts as stated in the finding. The total debit balance as stated in the finding was \$630,764. It is more than reasonable, as recommended by the actuary, that the revised projected average loss for that period, which is the calendar year for the plan, would be increased by \$100, 000 representing only a portion of the actual loss. MINACT did not expense the total actual cost of \$630,764 but began allocating the cost based on the recommendation of the actuary.

We request that this finding be removed from the report.

MINACT, INC. Response to findings

- An executive of MINACT received a salary of \$175,830...

Response:

We disagree with this finding. The summary of this questioned cost is misleading. The cash salary received by this executive is less than \$125,900. The auditors have incorrectly interpreted the definition of compensation to include amounts deferred to a retirement plan set up for individuals whose participation in the company 401k plan are limited by the terms of the 401k plan.

The public law cited defines "compensation" to include more than salary. Furthermore, Job Corps defined the ceiling to be "cash salary and bonus" only and applied the Executive Level III limit on salary only, which was \$125,900 for 1999. For the auditors to redefine the term "compensation" with a different result from what the Office of Job Corps specified in RFPs is inconsistent and any discrepancy should be addressed with the Office of Job Corps not MINACT.

In addition the audit report arbitrarily excludes the full definition of the term "compensation." The total compensation of the Executive Level III position is the limit established by the law not the cash salary amount of \$125,900.

MINACT should not be penalized for accepting the clear direction of the Office of Job Corps to limit cash payments charged to the government to the cash salary of the Executive Level III position.

We have no problem complying with the reinterpretation going forward but request that this finding be removed from the report based on inconsistency in the guidance from the Government.

MINACT, INC. Response to findings

- MINACT did not properly allocate depreciation and other vehicle expenses.

Response:

We concur with this finding. The accounting for this item was done correctly in prior years and was an error that will not be repeated.

- A deposit of \$6,500 for a corporate leadership conference held in FY2000 was included in the indirect cost pool for FY99.

Response:

We disagree with this finding. As a cost saving measure the leadership conference for Job Corps Center management is held biennially and as a result benefits accrue to both years. The deposit was necessary and was clearly an incurred cost for the FY99. There is no advantage to the government to move this cost to the subsequent year.

- MINACT included building improvement costs of \$4,841 that should have been capitalized and depreciated annually.

Response:

We concur with this finding. The initial entry was made based on the lease agreement.

- Legal costs incurred and not accrued during FY98 were included in the FY99 indirect cost pool.

Response:

We disagree with this finding. Although the dates of the service may have been FY98 the invoice for the service was not submitted to accounting until February 1999, five months after the end of the fiscal year. Since the attorney did not report his services to our outside auditors during yearend inquiries, there was no basis for an accrual. There is no advantage to the government to move this cost to the prior year.

MINACT, INC. Response to findings

- Reportable conditions

Response:

We concur with findings of lapses in our procedures for inventory and approvals. We are in transition to a fully automated databased accounting system and our manuals had not been updated to describe the electronic procedures in place currently.

However, we do not concur that a salary allocation plan based on actual time sheet distribution is a requirement of the PRH, Appendix 901 C.4.b. The rationale for the allocation was documented and reasonable. The recommendation to allocate based on time sheet distribution does not recognize the nature of the work, which includes responding to telephonic or electronic requests from other Job Corps center staff for clarification of technical and system issues. To require the individuals to keep such detailed records is counterproductive and burdensome. We should not be criticized for recognizing the occurrence of such assistance and systematically crediting the contract appropriately.